

**SOUTHERN CALIFORNIA UNITED FOOD & COMMERCIAL WORKERS
UNIONS AND DRUG EMPLOYERS PENSION FUND**

2220 HYPERION AVENUE • LOS ANGELES, CALIFORNIA 90027
TEL (323) 666-8910 • FAX (323) 663-9495 • <https://www.ufcwdrugtrust.org>

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April 28, 2013

Enclosed are two important notices regarding the Southern California United Food & Commercial Workers Unions and Drug Employers Trust Funds (the "Plan"): (1) the Plan's Annual Funding Notice for 2012; and (2) a Notice of Critical Status regarding the Plan's funded status for 2013. This letter provides a brief explanation of each of these notices and also discusses the steps we are taking to ensure the security of your pension benefits.

Annual Funding Notice-2012

The first notice is the Annual Funding Notice for the 2012 Plan Year. The Annual Funding Notice provides important financial information about the Plan, including descriptions of the Trustees' funding and investment policies and the allocation of the Plan's investments.

Much of the information in the Annual Funding Notice is a snapshot of the Plan's financial status as of the beginning of 2012, and therefore does not reflect changes that have occurred since that time. For example, the section titled "Funding Percentage" provides information as of January 1, 2012, well over a year ago.

Critical Status Notice-2013

In April 2012, we sent you a notice very similar to this notice to advise you of the critical status of the Pension Plan for the Plan Year that began January 1, 2012. This notice advises you that the Plan continues to be critical status for the plan year that began January 1, 2013. Under the PPA, the trustees of a critical status plan must send participants a notice about the plan's status

The fact that the Plan is in critical status does not mean that it will run out of money or be unable to pay benefits. The Plan has over \$635 million in assets, not including future employer contributions. It is not in danger of insolvency. Benefits will continue to be paid as required by the Plan.

When a Plan enters critical status, its Board of Trustees must adopt a "rehabilitation plan" ("RP") designed to improve the plan's financial health and to allow it to emerge from critical status. The Board of Trustees adopted a Rehabilitation Plan in November 2012. The Rehabilitation Plan's preferred schedule, which was adopted in the bargaining agreements that were renewed in 2012, did not call for reductions to benefits.

If you have any questions regarding the attached notices, please contact the Fund Office at (323) 666-8910.

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NOTICE OF CRITICAL STATUS

FOR THE

**SOUTHERN CALIFORNIA UNITED FOOD & COMMERCIAL WORKERS UNIONS AND DRUG
EMPLOYERS PENSION FUND**

April 28, 2013

To: All Participants, Beneficiaries, Participating Unions and Contributing Employers

In April 2012, we sent you a notice very similar to this notice to advise you of the critical status of the Pension Plan for the Plan Year that began January 1, 2012. This notice advises you that the Plan continues to be critical status for the plan year that began January 1, 2013. The Pension Protection Act of 2006 (PPA) requires that the Plan be tested annually to classify its funding status. Funds that are in critical status must notify all Participants, beneficiaries, Unions and Contributing Employers of that status, as well as take correction action to restore the Fund's financial health.

This notice is to inform you that on March 29, 2013, the Plan's actuaries certified to the U.S. Department of the Treasury, and to the Board of Trustees, that the Plan is in critical status for the Plan Year beginning January 1, 2013. The PPA requires that you receive this notice.

Critical Status

The Plan is considered to be in critical status because it has funding or liquidity problems, or both. More specifically, the Plan's actuary determined that the Plan is in critical status for the following reasons:

- The Plan has an accumulated funding deficiency for the current plan year and is projected to have an accumulated funding deficiency for the next three plan years (2014 through 2016);
- The sum of the Plan's normal cost and interest on the unfunded benefits (unit credit basis) for the current plan year is greater than the present value of all expected contributions for the current plan year; the present value of vested benefits of inactive participants is greater than the present value of vested benefits of active participants; and over the next four plan years, the plan is projected to have an accumulated funding deficiency for the 2014 through 2017 plan years.
- The Plan was in critical status last year and the plan is projected to have an accumulated funding deficiency for the next 9 plan years (2014 through 2022).

Rehabilitation Plan and Possibility of Reduction in Benefits

Federal law requires pension plans in critical status to adopt a rehabilitation plan aimed at restoring the financial health of the plan. The law permits pension plans to reduce, or even eliminate, benefits called "adjustable benefits" (described below) as part of a rehabilitation plan. The Board of Trustees adopted a Rehabilitation Plan in November 2012. The Rehabilitation Plan's preferred schedule, which was adopted in the bargaining agreements that were renewed in 2012, did not call for reductions to adjustable benefits. The Rehabilitation Plan is subject to annual review and revision. If, in the future, it is determined that benefit reductions are necessary, you will receive a separate notice identifying and explaining the effect of those changes. Any reduction to adjustable benefits will not be effective until after you receive that notice. Any reduction to adjustable benefits (other than a repeal of a recent benefit increase, as described below) will not reduce the level of a participant's basic benefit payable at normal retirement age. In addition, reductions to adjustable benefits may only apply to participants and beneficiaries whose benefit commencement date is after April 26, 2012.

Please be advised that whether or not the Plan reduces adjustable benefits in the future, effective for retirement benefits that commence after April 26, 2012, the Plan is not permitted to pay lump sum benefits or any other payment in excess of the monthly amount paid under a single life annuity (except for the lump sum payout of benefits worth \$5000.00 or less) while it is in critical status. This includes the Level Income Option form of payment and the Level Income Option with a 50% or 75% Joint & Survivor Annuity.

Adjustable Benefits

The Plan offers the following adjustable benefits that **may** be reduced or eliminated as part of any rehabilitation plan that may be adopted:

- Early Retirement Benefit or retirement type subsidy
- Rule of 85 Retirement
- Disability Retirement Benefit (if not yet in pay status)
- Joint and Survivor Annuity subsidies (including pop-up feature)
- 75% Joint & Survivor Annuity (also known as the Optional Survivor Annuity (with pop-up feature))
- Pre-Retirement Survivor Annuity Benefit subsidy
- Recent benefit increases (i.e. occurring in last 5 years)

Employer Surcharge

The law requires that all contributing employers pay to the Plan a surcharge to help correct the Plan's financial situation. The amount of the surcharge is equal to a percentage of the amount an employer is otherwise required to contribute to the Plan under the applicable collective bargaining agreement. With some exceptions, a 5% surcharge is applicable in the initial critical year and a 10% surcharge is applicable for each succeeding Plan Year thereafter in which the Plan is in critical status, until the employer agrees to a collective bargaining agreement that implements the rehabilitation plan. The

major contributing employers, and many of the smaller employers, entered into new collective bargaining agreements in 2012 that implemented the terms of the rehabilitation plan.

Where to Get More Information

For more information about this notice, you may contact the Plan Administrator at the following address:

Administrator – Southern California United Food & Commercial Workers
Unions and Drug Employers Pension Fund
2220 Hyperion Avenue
Los Angeles, CA 90027
(323) 666-8910

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